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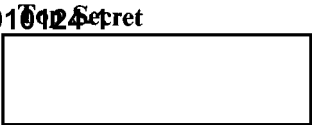
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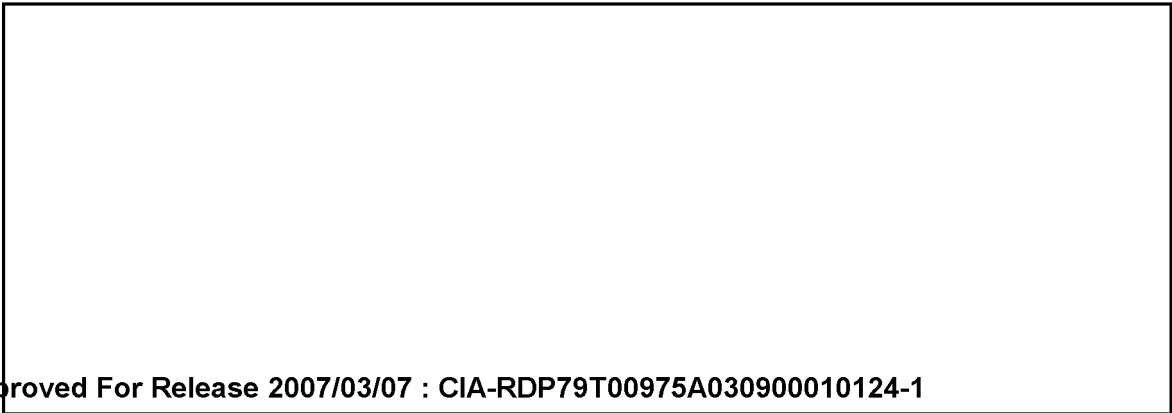
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IRAN: Domestic Situation

//The Shah of Iran is trying to seize the initiative from his domestic opponents by meeting with independent and opposition political figures. The military government is also orchestrating pro-Shah demonstrations and encouraging religious leaders to break with the opposition. The Shah's initiatives are unlikely to have any real impact unless he is willing to make some fundamental concessions that would sharply reduce--if not eliminate--his role in ruling Iran.//

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The Shah met yesterday with former Prime Minister Ali Amini amid widespread speculation that he may name Amini Prime Minister soon. It is unlikely, however, that a government headed by Amini would appease any significant element of the opposition. He is not a member of an opposition group, and his appointment as Prime Minister in 1962 is popularly believed to have been at the request of the US.

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//Conversations between US officials and members of the National Front indicate, moreover, that the opposition is not considering any conciliatory strategy and is continuing to insist that the Shah give up virtually all his powers. Indeed, National Front leader Karim Sanjabi on Wednesday told the press after meeting with the Shah that he had rejected an offer to form a coalition government.//

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Relatively small pro-Shah demonstrations have been held during the last two days in many provincial capitals, and pro- and anti-Shah demonstrators have reportedly clashed in the streets of Shiraz and Tabriz.

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Oil production has been running at about 1.1 or 1.2 million barrels per day since 11 December, compared with 5.9 million barrels per day at the beginning of the month. Oil company executives are pessimistic about the possibility of near-term increases in output, and the few Iranian workers still on the job have told supervisors they are willing to produce only enough crude to meet domestic requirements, although it is not clear whether oil workers could obtain information on domestic needs.

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These workers have threatened to walk out, and some strikers have threatened violence, if the consortium of

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oil companies that produces most of Iran's oil attempts to increase production or if military technicians are brought in to work with them. About 150 naval technicians are now manning two oilfields by themselves. [REDACTED]

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The labor problems at the major refinery at Abadan threaten a serious deterioration in the supply of petroleum products to the domestic market; local shortages of gasoline, oil, and kerosene have already developed. Some imports are trickling in, but these will not be enough if production at the Abadan refinery is much reduced. [REDACTED]

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MOROCCO: Challenge to Hassan

Moroccan King Hassan is facing the first significant demand that he loosen his firm grip on power since he launched a program of political liberalization three years ago. The leftist Socialist Union of Popular Forces, one of Morocco's two major parties, has made a bold call for modifications of the monarch's heretofore unquestioned authority. The assertiveness of the Socialist Union may be symptomatic of problems that seem likely to surface in Morocco next year.

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The Socialist Union made its move in a declaration unveiled at the end of the congress the party held this week. The government's initial reaction was to seize the party's newspaper to prevent publication of the declaration, which in effect characterized the monarchy as feudal. If the Socialist Union does not pull back from its challenge, however, the King will not hesitate to revert to the repression of the early 1970s, when he ordered the arrest of several hundred dissidents.

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Press reports indicate that Hassan has abruptly postponed his private visit to France allegedly because of illness. He may in fact want to monitor the situation personally.

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The Socialist Union has privately lobbied for political and economic reforms that would substantially reduce the King's autocratic powers, but until now has issued no public call for fear of provoking the King.

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The decision to attack the previously sacrosanct monarchy was made by party militants who are said to be embittered by the government's manipulation of the national and regional elections last year.

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The Socialist Union may have overestimated its popular support and acted prematurely. The party recently formed a labor organization and has influence in the National Student Union, but it has a long way to go in strengthening these organizations and regaining the popular following it had in the 1960s.

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Hassan's base of popular support is largely built on one issue--his success in forcing Spain in 1975 to relinquish its Saharan province to Morocco and Mauritania.

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That venture, however, has proved costly in both men and resources. Popular enthusiasm has cooled, and the issue is unlikely to divert public opinion much longer from the chronic problems of inflation and declining wages, which are already causing labor unrest. [REDACTED]

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CUBA-AFGHANISTAN: Coordination

//The visit of Cuban Foreign Minister Malmierca to Afghanistan late last month apparently resulted in agreement by the two governments to coordinate their foreign policies, to increase cultural exchanges, and later to discuss Cuban technical, scientific, and military assistance to Afghanistan.// [REDACTED]

//The basic reason for Malmierca's visit was to get Afghan support for Cuban positions at the summit meeting of the nonaligned movement scheduled for Havana next September. He was also interested in solidifying the close relationship developed after Cuba's immediate recognition of the new Afghan Government following the coup in April.// [REDACTED]

//Malmierca is said to have given Afghan officials the impression that Cuba is prepared to provide significant civilian technical assistance in a variety of fields. This possibility is given added weight by the appointment this fall of Raul Garcia Pelaez--a member of the Cuban Communist Party Central Committee and a former member of the party Secretariat--as Ambassador to Kabul.// [REDACTED]

//Afghan Foreign Minister Amin has publicly asserted that his government would seek "from all our revolutionary friends" any assistance necessary to thwart threats to the regime. This could well be an invitation to the Cubans, who we believe would be willing to provide at least limited security assistance or counterinsurgency training if requested.// [REDACTED]

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UK: Survives Vote of Confidence

//Britain's minority Labor government narrowly survived a vote of confidence in Parliament last night that climaxed two difficult days for Prime Minister Callaghan. In the long run, it could prove to have been a hollow victory because the events of the past two days may have seriously damaged the government's credibility and effectiveness in carrying out its economic policies and in dealing with the trade unions. Prospects that the government will be able to survive until its mandate expires next October are substantially reduced.//

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//Support and abstentions from minor parties helped the government; these parties feared they would suffer heavy losses if a general election were called now. Disenchanted leftwing Laborites, whose abstentions on votes earlier this week helped block parliamentary endorsement of Callaghan's pay policy, were also unprepared to let the government fall. December public opinion polls indicate that the government would not fare well if an election took place now; the Conservatives have regained their lead over Labor, and dissatisfaction with the government's economic policies has increased sharply.//

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//The most important development of the past two days is that significant parts of Callaghan's economic strategy now appear to be in shambles and that he may not be able to pick up the pieces. Early in yesterday's debate, Callaghan--in a pitch for support--confirmed that the government had abandoned the use of sanctions against firms that breach the pay guidelines and hinted that it would try other approaches--presumably restrictive fiscal and monetary policies.//

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//The government's ability to control inflation and to deal with union demands over the next several months, however, is at best uncertain. The Conservatives are likely to step up their attacks on Callaghan's handling of the economy and to attempt to exploit any issue that will embarrass the government.//

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BRIEF

Japan

25X1 The Japanese Government is apparently contributing \$60 million to a program for developing by 1990 fully automated factories incorporating various building-bloc machine tool systems. The funding, matched by another \$60 million from four private Japanese companies, will cover a developmental period extending from 1977 to 1983. []

//Each of the four companies has already developed a machine tool subsystem designed to form a modular machine tool system when combined with the other three subsystems. These units have high-precision, self-adjusting controls that compensate for tool wear and provide finer control than conventional machine tools. The second phase of the program, which has already begun, will add high-performance laser cutting and machining to the system in the next two years.// []

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//If successful, this program could virtually double the level of precision achieved by current machine tool operations--partly because of advances in real-time sensing technology--and the work force involved could be cut in half. In addition, retooling a factory for a new product line could be accomplished in days or weeks, rather than the present months or years.// []

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FEATURE ARTICLE

JAPAN: Changing Economic Signals

//The makeup of Prime Minister Masayoshi Ohira's first cabinet may foreshadow a change in Japan's economic direction. Although the cabinet was chosen largely for political balance, the economic views of the new ministers may indicate an eventual move away from big budget deficits. Some ministers will probably push for introduction of a value-added tax--an indirect tax levied on each stage of production and affecting consumers much like a sales tax--to boost tax revenues. The ministers apparently agree on a target of about 6 percent GNP growth over the next few years, but they differ over the means to attain that goal.//

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The list of economic appointments, in rough order of importance to Ohira's economic purposes, include:

-- Ippei Kaneko, 65, Finance Minister. A tax specialist with excellent credentials, Kaneko favors implementing the value-added tax to boost government revenues and to avoid a wider budget deficit.

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-- Masumi Esaki, 62, Minister of International Trade and Industry. Esaki has strong ties to business and to former Prime Minister Tanaka. He will push for high, domestic-led growth.

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-- Tokusaboro Kosaka, 61, Director of the Economic Planning Agency.

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He has substantial influence with old-line big business. Ohira probably selected Kosaka to be a spokesman for Japan in foreign economic affairs.

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-- Michio Watanabe, 54, Minister of Agriculture. Ohira's choice to coopt the political power of the far right wing of the Liberal Democratic Party, Watanabe will probably have the smallest role in economic policy formulation.

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//Beyond his immediate cabinet, Ohira may seek economic advice from Toshio Komoto, Chairman of the Liberal Democratic Party's influential Policy Affairs Research Council. The only Ohira appointee with previous experience in a cabinet-level economic position, Komoto will probably use his post to continue to push for more government economic stimulation.// []

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25X1 //Ohira's search for solutions to Japan's economic problems will probably extend to academicians as well as the business community. Ohira abolished the post of External Economic Affairs Minister held by Nobuhiko Ushiba but is seeking to retain Ushiba at least until Japan completes negotiations in the multilateral trade negotiations.// []

25X1 //Ohira will want to reduce the huge government budget deficits and current account surpluses that derailed former Prime Minister Fukuda's five-year economic plan after just three years. Fukuda avoided a value-added tax because of resistance from the opposition parties and his concern over its inflationary effect; without the tax, deficit spending soared. Japan's budget deficit as a proportion of GNP is now more than twice the US or West German deficit.// []

25X1 //On the trade front, Ohira will certainly want to keep the surplus with the US on a steady, if slow, decline. He has made no promise, however, to seek a global current account balance. Fukuda had promised to strive for "equilibrium" in Japan's global balance of payments by 1979--a promise that implied a reduced current account surplus offset by long-term capital outflows.// []

25X1 //Ohira will have difficulty coming up with a plan that simultaneously meets the goals for sustained growth, more balanced trade, and reduced budget deficits. The new government needs time before it can adopt a coherent game plan. As a whole, the cabinet is less experienced in economic policymaking than the outgoing Fukuda cabinet.// []

//For the near term, Ohira will have to live with growing budget deficits to keep the economy going. Ohira's fiscal year 1979 budget, which will be drafted by January, will probably call for growth in excess of

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6 percent. Government outlays on the general account may rise 16 percent over the revised 1978 figure, pushing the deficit financing requirement to over 37 percent of the total budget.// []

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A new medium-term plan including, perhaps, a proposal for the value-added tax should be completed before the major countries' economic summit next spring. Because the tax will not apply to goods sold abroad, it could have a beneficial impact on exports. In addition, it could help finance the housing and other social welfare expenditures needed over the longer term. Ohira also may give special consideration to private investment by cutting corporate taxes at the same time he imposes the value-added tax. []

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LATE ITEM

ARGENTINA-CHILE: Beagle Channel

25X1 *//No major changes have occurred in the Argentine-Chilean situation since the collapse of diplomatic efforts to resolve the Beagle Channel dispute, but both sides are continuing preparations for possible hostilities. Both countries insist they are still open to possible compromise, but no concrete steps have been taken to avert a conflict.//* [REDACTED]

25X1 *//The balance of forces favors Argentina, which should be able to carry the day in any conflict. In the southern region, Chile's 6,000 men would have to contend with about 21,000 Argentine soldiers, and Argentina also has the advantage in ships, aircraft, and ground force weapons and equipment.//* [REDACTED]

//Although Argentina could begin operations as early as today, the bulk of its fleet probably will not arrive in the Beagle Channel area before late today, and Army troops are still being deployed.// [REDACTED]

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25X1 *//The possibility of a clash is generating alarm in other South American capitals. Peru and Bolivia are watching the situation closely, but have indicated that they will remain neutral unless military activity spills over their borders. Brazil also intends to keep out of the dispute and has formally called on both Argentina and Chile to redouble their diplomatic efforts.//* [REDACTED]

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